File

UNION OIL COMPANY OF CANADA LIMITED ANNUAL REPORT 1975

Contents


EXPRESS
We pump at
SELF SERVE
PRICES
FULL SERVICE
union




Financial and Operating Highlights

Financial	1975	1974
Total revenues	$91,727,000	$85,518,000
Cash flow	29,179,000	39,159,000
per share	2.03	2.72
Earnings for the year	15,411,000	12,252,000
per share	1.07	0.85
Working capital at year end	53,712,000	48,852,000
Capital expenditures during year	16,526,000	26,651,000
Operating		
Average gross daily production		
Crude oil and natural gas liquids (bbls.)	30,119	39,097
Natural gas (mcf)	66,742	80,809
Sulphur (long tons)	270	308
Gross reserves at year end		
Crude oil and natural gas liquids (bbls.)	137,031,000	128,157,000
Natural gas (mmcf)	622,833	626,586
Sulphur (long tons)	1,205,150	978,864
Refinery throughput (bbls.)	2,263,000	2,408,000
Refined product sales (bbls.)	2,738,000	2,879,000
Land holdings at year end (net acres)	6,423,000	8,430,000

UNION OIL COMPANY
OF CANADA LIMITED

Report to the Shareholders

Nineteen seventy-five was a year of gradual recovery from the disruptive events experienced by the Canadian petroleum industry during 1974. Many of the harmful measures initiated by both federal and provincial governments in 1974 have carried over into 1975 and, although modified to some extent, will continue to affect operations in 1976. Notwithstanding these problems, improved financial results were attained in 1975 and we anticipate continued improvement in 1976.

Of the many problems faced by the petroleum industry over the past two years the most serious is the double taxation issue that resulted from the federal-provincial dispute over revenue sharing. Provincial royalties on production were sharply increased in 1974 and the federal government, on the basis that its tax base was being eroded, responded with amendments to the Income Tax Act, effective May 6, 1974, which required producers to pay tax on the provincial government royalty payments. The resulting double taxation has been the issue of greatest concern to the Company and has caused cancellation or postponement of several projects originally scheduled to continue or commence in 1975. Price constraints on both our field production and refined products have further restricted the Company's ability to generate revenue. Administrative complexities, resulting from frequent and often retroactive taxation and regulatory revisions, are seriously reducing time available for productive effort.

The Company, like all Canadian citizens, has felt the impact of inflation and the resulting increase in costs. In this regard we support, as an interim measure, the government's anti-inflation program. However, we believe that extended controls will distort the economy and that inflation will not be controlled until programs are introduced to restrain government spending and improve industrial productivity.

Net earnings in 1975, including an extraordinary gain of $1.0 million, were $15.4 million, as compared to 1974 net earnings of $12.3 million. Net earnings for 1974 have been adjusted upward, due to the recalculation of income taxes described in Note 1 to the financial statements. Return on shareholders' equity has risen from 8.6% in 1974 to 10.1% in 1975. Cash flow from operations was reduced to $29.2 million in 1975 from $39.2 million in 1974, primarily as a result of the Company being taxable for the full year. Other comments on financial results may be found in the Financial Summary and Analysis on page 9 and Notes to the Financial Statements on page 15.

In March 1975, the Board of Directors declared a special dividend of 60 cents per share, the first dividend paid by the Company.

Capital expenditures for petroleum exploration were reduced in 1975 as emphasis has been redirected from federal lands in the high cost frontier areas of Canada to Alberta and British Columbia, where expanded drilling and land acquisition programs have been initiated. This change in emphasis is a direct result of an improved regulatory climate in the two provinces, the unsatisfactory form and content of the proposed federal land regulations and uncertainty with respect to preferential rights which may be granted to Petro-Canada, the newly created national oil company.

In the People's Republic of Bangladesh the results of seismic surveys, which are still in progress, have been encouraging and the first exploratory drilling is scheduled for early 1976.

During 1975 evaluation work was continued on a recently discovered thermal coal deposit in Alberta in which the Company holds an 80% working interest, and the results to date indicate potential for a significant reserve. We expect to conclude field evaluation and commence a mining feasibility study in 1976.

In our production operations a concerted effort was made over the past twelve months to work out a suitable arrangement with the Saskatchewan and federal governments so that the Company's southwestern Saskatchewan oil production could be restored to normal levels. To date this effort has been only moderately successful. Canadian refiners have historically purchased only negligible quantities of this medium gravity high sulphur oil. Due to federal tax and export controls this oil is now less competitive in its usual United States markets. As a result of improving natural gas prices several formerly uneconomic properties were placed on production in 1975. Opportunities exist to expand this program in 1976.

The Company's heavy oil evaluation programs were continued in 1975, but further work may be deferred until certain economic uncertainties can be resolved. The Alberta government has announced a cost sharing program for development of heavy oil technology. The Company has made application to be included in the program, and if the submission is accepted, the in situ pilot operation commenced in 1974 in the Chipewyan area of Alberta will be expanded.

Nineteen seventy-five was a difficult and very challenging year for refining and marketing operations as general economic conditions, particularly in British Columbia, contributed to oversupply and intense competition. Price restraints, both federal and provincial, added to the difficulties experienced. Despite these many adverse factors retail sales were increased over levels reached in 1974. As a result of self-serve competition in the retail gasoline market we initiated a pilot program to develop more competitive marketing techniques. Results of the program have been encouraging, and we are proceeding to implement the techniques developed throughout our retail system.

There were several changes in the Board of Directors and corporate officers during the year. Mr. W. E. Farrar, President of the Company for fourteen years, resigned in March to accept a position with Union Oil Company of California. Mr. C. S. Brinegar, a Senior Vice President of Union Oil Company of California, was elected to the Board of Directors, Mr. C. W. Dumett, formerly Vice President Production, was elected to the Board and appointed President. Other appointments included Mr. E. J. Connor as Vice President Production, Mr. J. L. Maclagan as Vice President Finance and Treasurer and Mr. D. B. Jarrett as Comptroller and Assistant Secretary.

The Directors wish to express their appreciation to the more than 300 men and women of the Company for their continued dedication and fine efforts throughout a difficult year.

On Behalf of The Board

President

February 16, 1976

Exploration and Production

Exploration

Exploration capital expenditures were reduced in 1975 as emphasis was redirected from federal lands in the frontier areas of Canada to Alberta and British Columbia. This change in emphasis resulted partly from a lack of exploration success in frontier areas but, more directly, was caused by proposed changes in federal regulations, formation of Petro-Canada and improved economics for exploration in Alberta and British Columbia. The proposed federal oil and gas land regulations infer severe limits on profitability as well as the granting of preferential rights to Petro-Canada. The Company's land holdings in the Yukon, Northwest Territories and the Beaufort Sea will be maintained and plans developed for further exploration at such time as current uncertainties are resolved. Expanded drilling and land acquisition programs are planned for Alberta and British Columbia in 1976.

The Company participated in the drilling of 16 exploratory wells in 1975, including 10 drilled by other companies on farmouts from Union, resulting in two natural gas discoveries. One discovery may prove significant. This well, which tested nine million cubic feet of natural gas per day, was drilled in British Columbia on a 19,000 acre permit in which the Company holds a 50% interest.

During the year the Company acquired a total of 4,170 miles of reflection seismic surveys in Alberta, British Columbia, the Northwest Territories and Bangladesh. Of the total 3,320 miles were acquired through participation in field programs and 850 miles were acquired by purchase of existing data.

In 1975, 163,000 net acres of petroleum and natural gas rights were purchased at a cost of $1,430,000; 400,000 acres were acquired by farmin agreements or assignments and 102,000 acres were acquired by filing. Also, during the year 2,690,000 acres were surrendered, including 1,058,000 acres in areas offshore eastern Canada and 123,000 acres in the Arctic Islands.

Foreign exploration was limited to Bangladesh where the Company holds a 25% interest in a 4,144 square mile block of land, mostly offshore from the mouth of the Ganges River. A marine seismic program has been completed with encouraging results and an offshore exploratory drilling program will commence in the first half of 1976.

Petroleum Land Holdings at December 31, 1975 (acres)

	*Reservations & Permits		Leasehold		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	825,461	772,154	1,615,573	986,151	2,441,034	1,758,305
British Columbia	413,731	271,797	500,339	267,765	914,070	539,562
Manitoba	—	—	1,960	890	1,960	890
Saskatchewan	—	—	173,764	60,063	173,764	60,063
Northwest Territories	4,320,642	2,226,946	307,586	134,680	4,628,228	2,361,626
Yukon	357,331	310,015	—	—	357,331	310,015
West Coast Offshore	112,397	112,397	—	—	112,397	112,397
Arctic Islands	1,433,138	338,925	—	—	1,433,138	338,925
Beaufort Sea	556,022	278,012	—	—	556,022	278,012
Total Canada	8,018,722	4,310,246	2,599,222	1,449,549	10,617,944	5,759,795
Bangladesh	2,652,160	663,040	—	—	2,652,160	663,040
Total	10,670,882	4,973,286	2,599,222	1,449,549	13,270,104	6,422,835

* *Approximately 50% of the area of each permit or reservation may be converted to lease.*

Minerals

During 1975 Union participated in mineral exploration programs in Alberta, British Columbia and the Northwest Territories. As a result of expanding operations, and in anticipation of future opportunities, a minerals department was established late in the year.

The most significant activity was additional evaluation of a recently discovered thermal coal deposit in Alberta in which Union holds an 80% interest. Results to date indicate potential for a significant reserve. Government approval for additional core hole drilling and bulk sampling is expected early in 1976, and we expect to conclude field evaluation of the property and commence a mining feasibility study by year end.

In 1976 the Company plans to participate in several new exploratory ventures with emphasis directed primarily to coal and uranium.

At year end net land holdings totalled 205,335 acres including 6,400 acres of coal lease, 136,328 acres of coal lease applications, 7,932 acres of mining claims and 54,675 acres of prospecting permits.

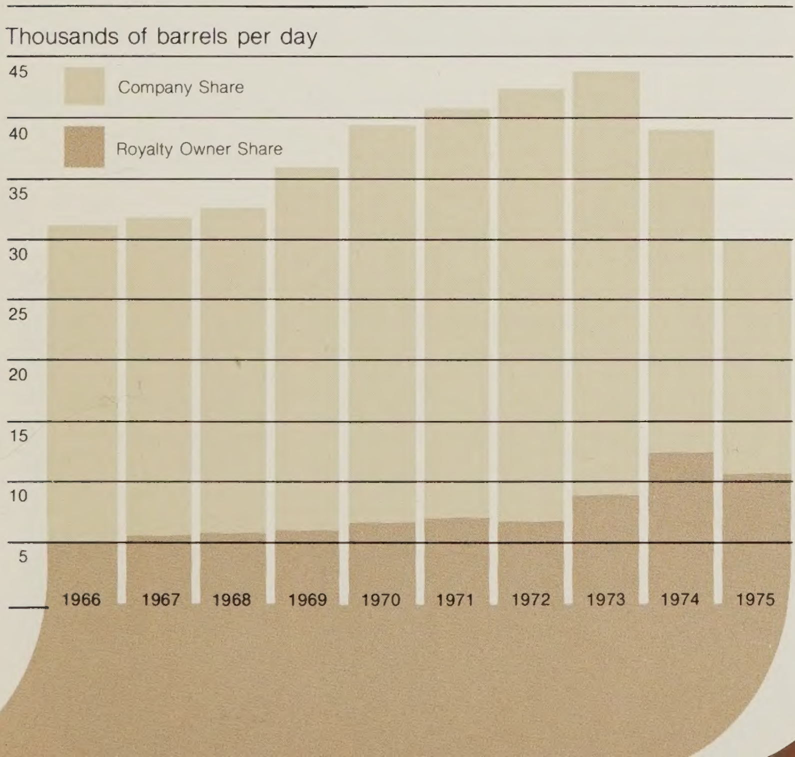
Production

Development drilling was at a low level in 1975. The program consisted of minority participation in four oil wells, 21 gas wells, four service wells and seven abandonments.

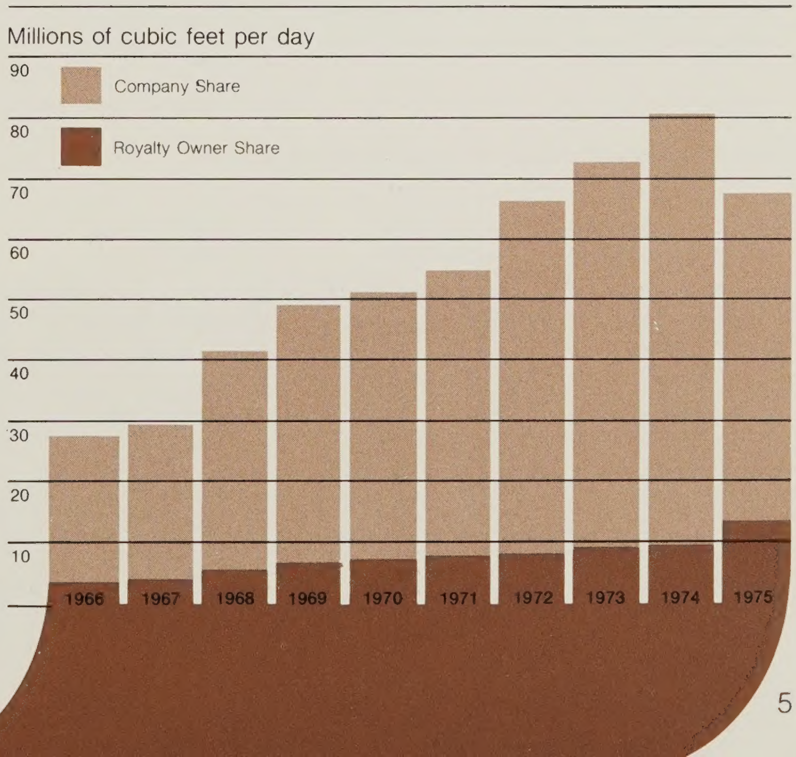
Gross crude oil and natural gas liquids production averaged 30,119 barrels per day, down 23% from 1974. The decline resulted from reduced exports (42%), lack of market for medium gravity Saskatchewan crude (39%) and normal field decline (19%). The average wellhead or plant gate price for crude oil and natural gas liquids increased by $1.53 to $6.47 per barrel in 1975. Union's share of this increase, after deducting taxes and royalty payments, was about 50 cents.

In 1975 the Company's medium gravity Saskatchewan crude oil production averaged 3,500 gross barrels per day, down 50% from 1974. The production loss was originally

Crude Oil & Natural Gas Liquids Production



Natural Gas Sales



created by imposition of a federal export tax which made the crude less competitive in its historical United States market. The problem has recently become more serious as the federal government has implemented a plan to gradually reduce all crude oil exports. Unfortunately this medium gravity high sulphur crude has a limited market in Canada and a return to a normal production rate will require the cooperation of Canadian refiners as well as the Saskatchewan and federal governments. Although we will continue to seek a solution, only limited success can be expected in 1976.

Gross natural gas sales averaged 66.7 million cubic feet per day, a 17% decrease from 1974. The decline results in part from reduced demand but primarily from field decline. In early 1975, as natural gas prices improved, several formerly uneconomic gas properties were placed on production. Prices improved further in late 1975 and additional properties will be placed on production in 1976. We expect the decline in natural gas production will be arrested and reversed in 1976. The average natural gas wellhead price increased by 28 cents per thousand cubic feet to 53.7 cents in 1975. The Company's share of this increase was about 14 cents.

Gross sulphur sales averaged 220 long tons per day, a 33% reduction from 1974. The decline was caused by reduced demand in the export market. Fortunately, prices remained at levels above those prevailing in 1974 and the average plant gate price improved by $2.30 per long ton to $10.72. The Company's share of the price increase was about $1.06.

During 1975 facilities were completed to extend the Kaybob South Triassic waterflood and conserve associated gas. Union's share of gross oil production will increase by approximately 500 barrels per day.

A major construction project to provide improved sulphur recovery facilities at the Kaybob South gas processing plant was near completion at year end.

The Company was involved in two research programs designed to gather data in preparation for drilling in the Beaufort Sea. Union is one of 18 companies participating in a 12 million dollar industry-government environmental study and one of nine companies supporting evaluation of design criteria for a novel semi-submersible drilling system with ice cutting capability. Further, we have made a substantial financial contribution to one of the first wells to be drilled in the Beaufort Sea. The drilling systems for this initial program are expected to enter the Beaufort Sea in 1976.

Evaluation drilling was continued on Union's wholly owned heavy oil or bitumen properties at Chipewyan and Athabasca in northern Alberta. Twenty-seven core holes

Crude Oil and Natural Gas Liquids Production

	Average Gross Daily Barrels		Average Net Daily Barrels	
	1975	1974	1975	1974
Alberta	19,940	23,759	12,857	16,080
British Columbia	4,297	5,411	1,871	2,607
Manitoba	258	278	221	238
Saskatchewan	5,624	9,649	4,579	7,676
TOTAL	30,119	39,097	19,528	26,601

Natural Gas Sales

	Average Gross MCF/Day		Average Net MCF/Day	
	1975	1974	1975	1974
Alberta	41,862	44,570	28,726	36,055
British Columbia	23,240	32,549	23,020	32,430
Saskatchewan	1,640	3,690	1,447	3,285
TOTAL	66,742	80,809	53,193	71,770

were drilled in potential mining areas and 12 wells were completed in areas which will require in situ recovery methods. A pilot steam injection project was commenced at Chipewyan in early 1975 and was successful in attaining all initial objectives.

Because of unresolved royalty and taxation issues we are reluctant to undertake additional research on heavy oil recovery. However, the Alberta government has announced a cost sharing program for development of heavy oil technology. Union has applied for support under the program and, if successful, will expand the Chipewyan operation.

The Company's gross proven developed and undeveloped year end reserves, as calculated by staff reservoir engineers, are summarized in the accompanying table. Developed reserves are the quantities that can be recovered through existing facilities. Undeveloped reserves are the volumes estimated to be recoverable from wells to be drilled on proven undrilled acreage, from recompletion of existing wells, or from the installation of new facilities for enhanced recovery or gas processing. Potential heavy oil reserves are not included.

This is the first year that reserves have been reported on a gross rather than a net basis. Gross reserves reflect the Company's ownership interest before deducting royalties. The revised reporting has been adopted to provide more reliable year end reserves and to facilitate year to year comparison of performance. Net reserve calculations are now less reliable as a result of the increasing frequency of change in basic royalty rates and the introduction of supplementary royalties which vary with sales price.

Refining and Marketing

The Company's Prince George refinery processed 2,263,000 barrels of crude oil and condensate in 1975, 6% less than the 2,408,000 barrels processed in 1974. A reduction in refinery throughput was required during the third quarter as strikes shut down our major heavy fuel oil customers.

The year 1975 was also a difficult year for marketing. A combination of industrial unrest and a depressed economy in much of our marketing region has contributed to an oversupply of products and severe price competition. Total sales volume of refined oil products to all classes of trade was 72.5 million gallons in 1975 as compared to 78.3 million gallons in 1974.

The market for heavy fuel oil in British Columbia was seriously restricted as the price of this product rose to reflect rising crude oil price, while the price of industrial

Gross Reserves

	Crude Oil and Natural Gas Liquids (Barrels)		Natural Gas (Thousands of Cubic Feet)		Sulphur (Long Tons)	
	1975	1974	1975	1974	1975	1974
Alberta	94,537,000	83,426,000	349,680,000	301,006,000	1,205,150	978,864
British Columbia	6,114,000	8,543,000	245,678,000	296,185,000	—	—
Manitoba	502,000	391,000	—	—	—	—
Saskatchewan	35,878,000	35,797,000	20,529,000	22,449,000	—	—
Northwest Territories	—	—	6,946,000	6,946,000	—	—
TOTAL	137,031,000	128,157,000	622,833,000	626,586,000	1,205,150	978,864

natural gas has remained essentially static. As the price of both crude oil and natural gas are controlled by government, regulatory agencies must take the necessary steps to equate commodity values of energy fuels so that these resources will be competitive and conserved for the proper end use.

Although various forms of price controls have been imposed throughout our marketing region, product prices have increased to partially recover the increased price of crude oil and escalated manufacturing and distribution costs. The price of motor gasoline has increased further as a result of sharply increased taxes. Consequently, the consumer has become extremely conscious of even minor variations in price.

Union's approach to the retail market has been to provide "Full Service" to the motoring public through attractive, clean and well-managed stations. This approach continues to be our basic policy. However, in late 1975 we introduced a pilot program to test marketing methods that would allow us to be more competitive yet retain the concept of service to our customers. The basis of the program was to develop "Express Service" islands at service stations which compete in price sensitive market areas. Rather than employ "Self Serve" methods at these islands, attendants pump gasoline at "Self Serve" prices. Each retail outlet continues to provide "Full Service" for those customers desiring this form of service. Preliminary results of the pilot program have been encouraging and we intend to expand "Express Service" marketing in 1976.

Employee and Corporate Affairs

During 1975, Union employees continued to participate actively in industry sponsored organizations and community endeavours by donating time and effort to a variety of projects. Employee expertise was directed through the Canadian Petroleum Association and other technical societies so that meaningful representations could be made to the various levels of government, the media and the general public on a number of key issues. In addition, employees were encouraged by the Company to support cultural, charitable, political and educational projects.

The changing business environment, as it relates to the oil and gas industry, has resulted in the Company redirecting some of its effort and making organizational changes and personnel realignments so that new goals can be achieved. Mr. D. B. Leitch was appointed General Manager of the newly formed Minerals Department. In the Production Department, Mr. J. J. Sullivan became Manager of Production, Mr. H. E. Hughes, Manager of Drilling and Mr. W. C. Cracknell, Manager of Engineering and Joint Interest. In the Refining and Marketing Department, Mr. J. C. Wesch was appointed Manager of Refining and Product Supply and Mr. B. F. Gandossi, Manager of Marketing. In the Finance Department, Mr. J. J. Bohnet was appointed Manager of Accounting.

At year end the Company had 337 permanent employees. Summer employment was provided for 27 undergraduate students from a variety of educational centres.

The Company's Retirement Plan was amended effective January 1, 1976. The amendments standardize the normal retirement age at 65 years for both male and female employees and provide an early retirement option at age 62. A program was also initiated by the Company to provide supplemental payments to retirees.

Opportunities for employees to broaden their skills are part of ongoing manpower planning and development programs. During 1975, 23 employees successfully completed outside extension courses under the Company's educational aid program. A further 38 employees received special technical training, at outside institutions, in exploration, drilling and production techniques, as well as at seminars in economics, supervision and management. Internally, 56 employees were trained for arctic safety and survival.

Financial Summary and Analysis

Union's 1975 net earnings were $15.4 million, an increase of $3.1 million over 1974 net earnings of $12.3 million which have been restated to give effect to an overprovision for income taxes as explained in Note 1 to the financial statements. Earnings in 1975 included an extraordinary gain of $1.0 million realized from the sale of commercial real estate.

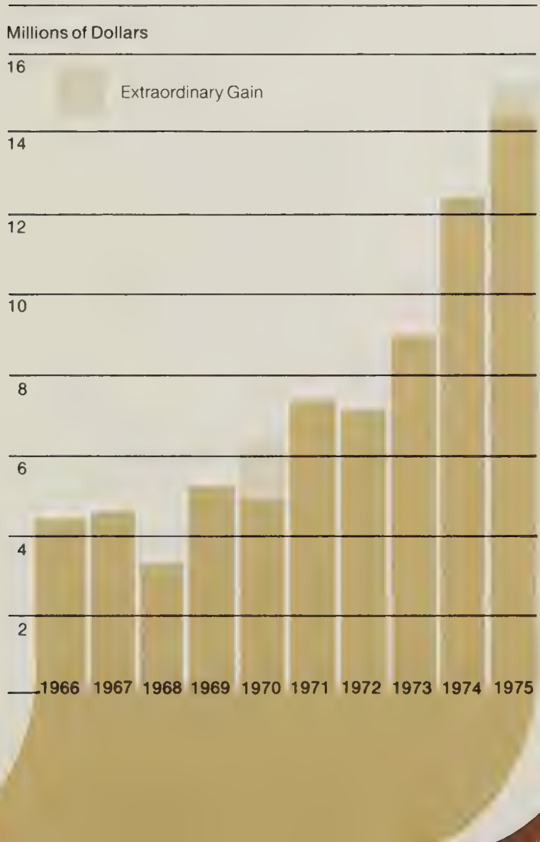
Earnings have improved during the past few years mainly as a result of increases in crude oil and natural gas prices. Growth in earnings from operations slowed in 1975, primarily as a result of reduced crude oil production and the first full year of income tax payments. To illustrate the impact of the high rates of income tax to which the industry is now subject, had the Company not been required to pay income tax on royalties and other kinds of payment to government, 1975 net earnings would have been approximately $19.5 million. Return on shareholders' equity has risen from the unsatisfactory levels of past years to 10.1% for 1975.

Cash flow for 1975 was $29.2 million, a decrease of 25% from 1974 restated cash flow of $39.2 million. Nevertheless, the funds generated in 1975 were more than adequate to cover increased income tax assessments, the Company's first dividend (60 cents per share) and capital expenditures. Cash and short term investments increased by $4.4 million to $50.7 million at year end and working capital amounted to $53.7 million.

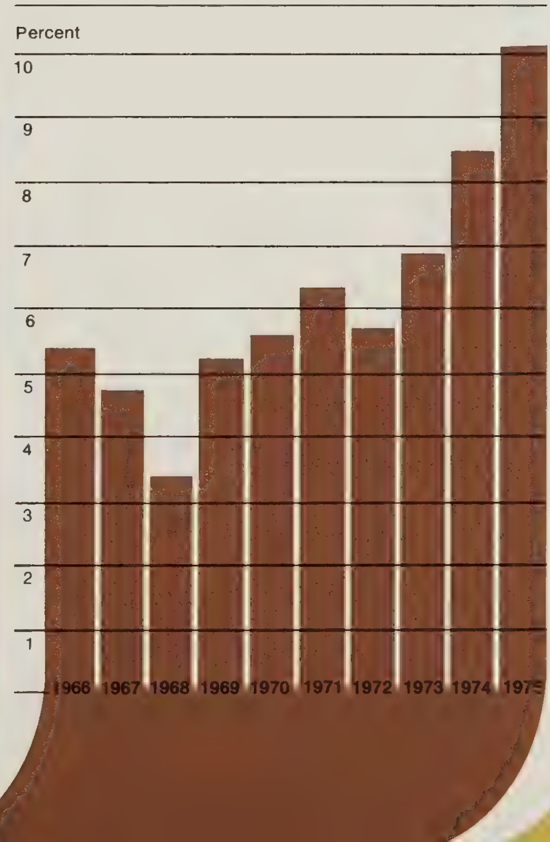
The graphs on these pages indicate that the trend of earnings, cash flow and total revenues has been upward over the past 10 years.

Total expenses, not including income taxes, were $61.4 million in 1975, an increase of only 3% over $59.6 million in 1974. Production expenses were 9% lower as a result of reduced crude oil production, incentive rebates and cost reduction efforts made on Company-operated properties. However, those cost reductions were more than offset by inflationary cost increases for most goods and services.

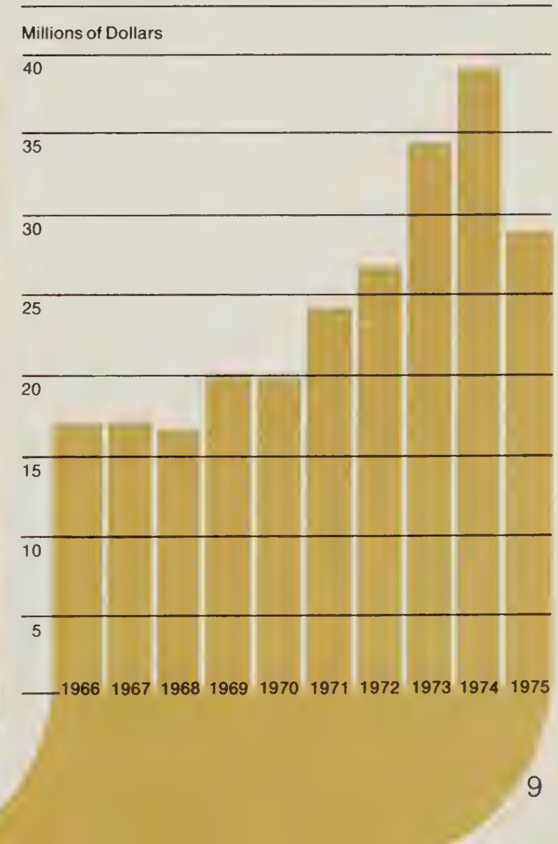
Net Earnings



Return on Shareholders' Equity



Cash Flow

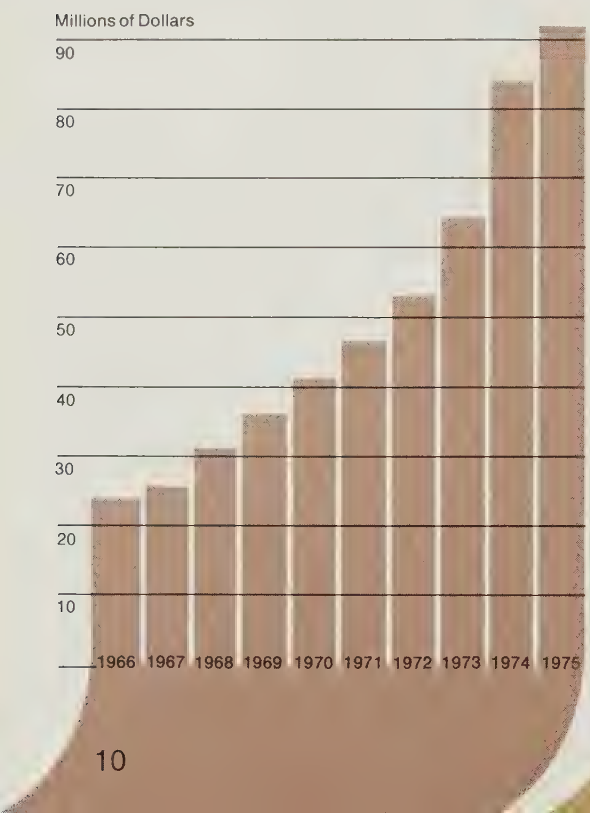


Income tax payments for 1975 increased to $17.9 million from the restated amount of $7.2 million paid in 1974. The restatement of the 1974 figure is explained in Note 1 to the financial statements. The year to year comparison of taxes payable is distorted by the fact that assessment of tax on government share of proceeds from the sale of crude oil and natural gas was in effect for a full year in 1975 compared with eight months in 1974.

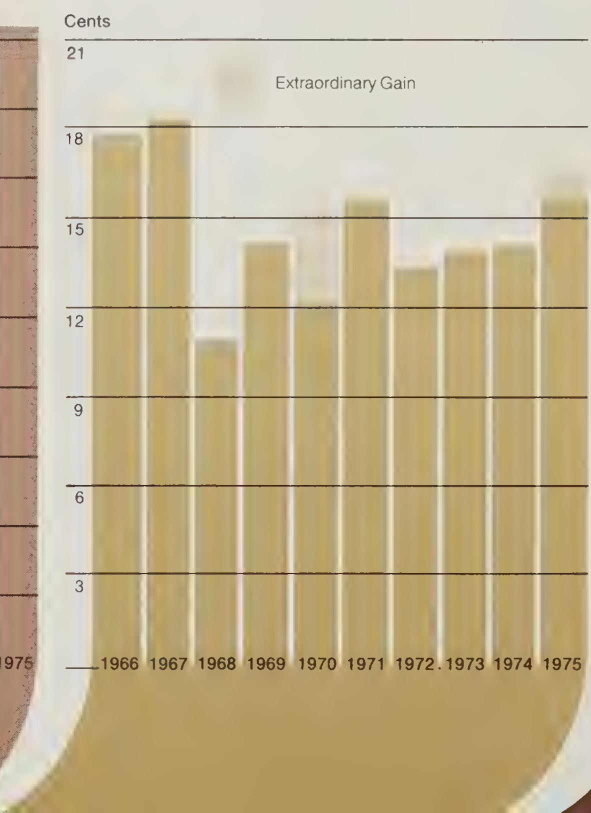
Capital expenditures in 1975 totalled $16.5 million as compared to $26.7 million in 1974. Reduced exploration expenditures account for the decrease. The Company's strong cash position and expected increase in cash flow provide opportunity to increase capital expenditures in 1976. Continued improvement in royalty and taxation policies should encourage increased capital spending for petroleum and mineral exploration and development.

Financial statistics for the past ten years appear on pages 18 and 19 of this report.

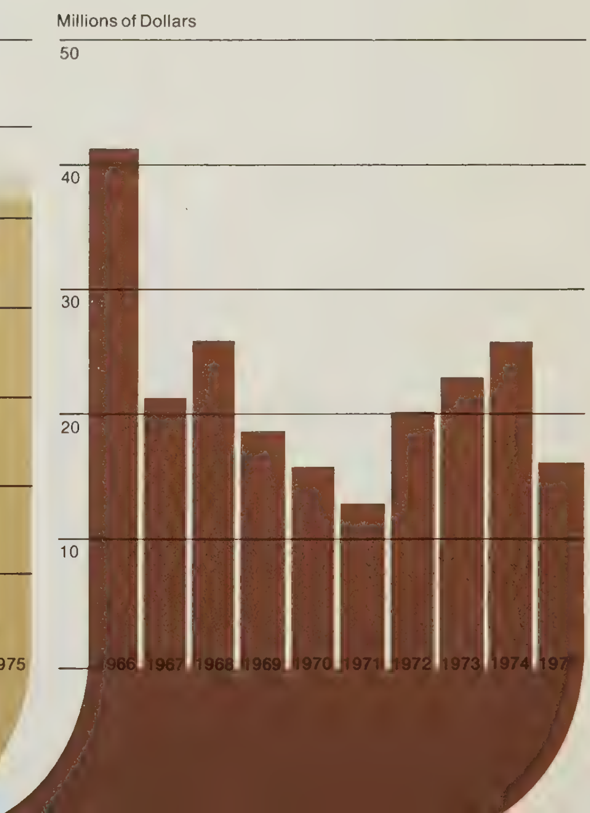
Total Revenues
(Not including retail sales and excise taxes)



Net Earnings in Cents
Per Dollar of Revenue



Capital Expenditures



Consolidated Statement of Earnings

Year ended December 31

	1975	1974
Revenues		
Sales of crude oil, natural gas, natural gas liquids and sulphur	$57,184,000	$55,495,000
Sales of refined products	29,234,000	24,576,000
Interest and other income	5,309,000	5,447,000
Total revenues	91,727,000	85,518,000
Expenses		
Production	9,356,000	10,264,000
Exploration	2,221,000	1,685,000
Rentals on unproven lands	1,246,000	1,348,000
Amortization of unproven lands	8,244,000	8,109,000
Depletion	1,160,000	1,225,000
Depreciation	5,938,000	6,060,000
Dry holes and abandonments	1,505,000	5,013,000
Refining and marketing	27,470,000	22,002,000
General and administrative (Note 2)	4,255,000	3,860,000
Total expenses	61,395,000	59,566,000
Earnings from operations before income taxes	30,332,000	25,952,000
Income taxes — current (Note 1)	17,890,000	7,200,000
— deferred (Note 1)	(1,921,000)	6,500,000
Earnings from operations before extraordinary gain (per share — 1975 $1.00; 1974 $0.85)	14,363,000	12,252,000
Sale of real estate (after income taxes; current $110,000, deferred $221,000)	1,048,000	—
Net Earnings (Note 1) (per share — 1975 $1.07; 1974 $0.85)	$15,411,000	$12,252,000

See Summary of Accounting Policies and Notes to the Financial Statements

Consolidated Balance Sheet

December 31

	1975	1974
Assets		
Current Assets		
Cash	$ 752,000	$ 3,550,000
Short term deposits	49,923,000	42,705,000
Accounts receivable	18,667,000	17,746,000
Inventories		
Crude oil and natural gas liquids, sulphur and refined product	4,848,000	4,108,000
Materials and supplies	3,468,000	2,683,000
Prepaid expenses	947,000	764,000
	78,605,000	71,556,000
Property, Plant and Equipment, at cost (Note 4)	211,403,000	204,865,000
Less: Accumulated amortization, depletion and depreciation	84,703,000	77,325,000
	126,700,000	127,540,000
Other Assets		
Long term receivables	1,221,000	253,000
Investment in non-controlled companies, at cost	992,000	1,043,000
Operating and performance deposits	846,000	689,000
Deferred charges	443,000	465,000
	3,502,000	2,450,000
	$208,807,000	$201,546,000

Approved by the Board of Directors

Fred L. Hartley Director

Director

	1975	1974
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 16,693,000	$ 15,504,000
Income taxes payable	8,200,000	7,200,000
	24,893,000	22,704,000
Deferred Income Taxes (Note 1)	28,365,000	30,065,000
	53,258,000	52,769,000
Shareholders' Equity		
Share Capital (Note 5)		
Authorized		
22,500,000 shares without par value		
Issued and fully paid		
14,399,190 shares	4,960,000	4,960,000
Contributed Surplus	73,318,000	73,318,000
	78,278,000	78,278,000
Retained Earnings (Note 1)	77,271,000	70,499,000
	155,549,000	148,777,000
	$208,807,000	$201,546,000

See Summary of Accounting Policies and Notes to the Financial Statements

Consolidated Statement of Retained Earnings

Year Ended December 31

	1975	1974
Balance at beginning of year	$68,699,000	$58,247,000
Adjustment for overprovision of income taxes (Note 1)	1,800,000	—
Adjusted balance at beginning of year	70,499,000	58,247,000
Net earnings for the year	15,411,000	12,252,000
	85,910,000	70,499,000
Dividend paid	8,639,000	—
Balance at end of year	$77,271,000	$70,499,000

Consolidated Statement of Changes in Financial Position

Year ended December 31

	1975	1974
Source of Funds		
Total revenues	$91,727,000	$85,518,000
Less expenditures involving the outlay of funds	62,548,000	46,359,000
Funds provided	29,179,000	39,159,000
Issue of shares	—	40,000
Disposal of property, plant and equipment	98,000	708,000
Disposal of real estate	1,800,000	—
	31,077,000	39,907,000
Use of Funds		
Capital expenditures	16,526,000	26,651,000
Net increase (decrease) in other assets	1,052,000	(1,097,000)
Dividend paid	8,639,000	—
	26,217,000	25,554,000
Increase in working capital	4,860,000	14,353,000
Working capital at beginning of year	48,852,000	34,499,000
Working capital at end of year	$53,712,000	$48,852,000
Consisting of:		
Current assets	$78,605,000	$71,556,000
Less current liabilities	24,893,000	22,704,000
	$53,712,000	$48,852,000

See Summary of Accounting Policies and Notes to the Financial Statements

Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Union Oil Company of Canada Limited and its wholly owned subsidiary Union Oil Holdings Limited.

Inventories

Valuation of inventories is at or below average cost but does not exceed net realizable value.

Leasehold Costs

The cost of acquisition of oil and gas rights, which includes a portion of the costs of wells drilled to earn an interest in such rights and the cost of geophysical surveys which result in acquisition or retention of those rights, are capitalized. Such costs related to unproven oil and gas rights are amortized over the estimated period of retention of those rights and when such rights are surrendered their original cost is charged against the accumulated amortization. When unproven lands become productive the original costs are transferred to proven and, like the acquisition costs of producing properties, are charged against earnings by an annual provision for depletion calculated on a unit of production basis. Total proven reserves, both developed and undeveloped, are used in this calculation.

All oil sands and heavy oil expenditures are capitalized as cost of oil and gas rights and are amortized over the estimated period of retention of those rights.

Exploration and Development Costs

The costs of drilling exploratory wells are charged to expense as incurred, except that a portion of the costs of those wells which are drilled to earn interests in petroleum and natural gas rights are capitalized. The costs of geophysical surveys are initially capitalized and such costs which do not result in the acquisition or retention of lands are subsequently charged to expense when the results are evaluated.

Depletion and Depreciation

The costs of drilling successful wells and costs of production equipment and facilities, including gas processing plants, are capitalized and subsequently charged to expense as depletion and depreciation which are calculated on the unit of production basis using in the calculation only proven developed reserves.

Costs of refining, marketing and general facilities are depreciated on the straight line basis over the estimated useful life of the facility.

Income Taxes

The Company follows the practice of claiming maximum capital cost allowance and other deductions in calculating income for tax purposes.

The Company also follows the tax allocation method of accounting for deferred income taxes which makes provision for taxes deferred due to timing differences between expenditures claimed for tax purposes and the charging of those expenditures against earnings in the accounts.

Notes to the Financial Statements

Note 1 — Income Taxes

Under the provisions of the Income Tax Acts, the Companies may deduct exploration and development expenses and may provide for capital cost allowances at rates which vary from the corresponding write-offs and depreciation recorded in the accounts. Any excess of such costs not used in one year may be carried forward to apply against future income. At December 31, 1975, exploration and development expenses totalling approximately $5,400,000 were carried forward for use in computing taxable income in future years. There remained at the same date approximately $20,900,000 of assets in respect of which capital cost allowances may be claimed. At December 31, 1974, the comparable figures were approximately $3,850,000 and $22,400,000.

In accordance with the income tax allocation basis of accounting, the companies have provided in the accounts for income taxes deferred by reason of all timing differences in claiming costs for tax purposes and charging these costs against earnings for financial accounting purposes. In 1975, costs charged against income in the accounts exceeded those claimed for tax purposes with the result that a reduction in deferred taxes of $1,921,000 is reported compared with a provision of $6,500,000 reported in 1974.

The Income Tax Acts provide that certain expenditures made since November 7, 1969, may be carried forward for use in calculating depletion to be applied in determining taxable income. At December 31, 1975, the amount of those expenditures which had not been applied, only 33⅓% of which may constitute earned depletion, was approximately $40,900,000 ($64,300,000 at December 31, 1974).

At the end of 1974, the changes in the income tax legislation which had been presented to the House of Commons on

December 20, 1974, and the effects of announcements regarding rebates which had been made by each of the Provinces of Alberta, British Columbia and Saskatchewan, were not fully known. As clarification of all of the changes was provided throughout 1975, it was determined that the provision for income taxes reported for 1974 was overstated by $1,800,000, with a corresponding understatement of earnings. As shown in the Statement of Retained Earnings, a retroactive adjustment has been made to record the corrected provision for taxes. For comparative purposes the 1974 Statements of Earnings and Changes in Financial Position reflect the corrected provision for taxes and earnings.

Note 2 — Remuneration of Directors and Officers

Statement required by Canada Corporations Act:

(a) number of directors — seven
aggregate remuneration as directors — $2,500

(b) number of officers — eight
aggregate remuneration as officers — $324,900

(c) number of officers who are also directors — two

Statement required by certain provincial Securities Acts:

Aggregate direct remuneration paid or payable by the Company and its consolidated subsidiary to the directors and senior officers of the Company amounted to $327,400.

Note 3 — Commitments and Contingencies

In accordance with relevant regulations, the Company has issued non-interest bearing demand notes which are on deposit with the governments of Canada and Alberta to guarantee the performance of exploratory work in respect of certain Crown oil and gas rights granted to the Company. These demand notes totalled $3,384,000 at December 31, 1975.

The Company is contingently liable for the payment of principal (to a maximum of $2,350,000 at December 31, 1975) and interest in respect of certain debentures of a pipeline company of which Union Oil Company of Canada Limited is a shareholder.

Note 4 — Property, Plant and Equipment

at December 31, 1975

	Gross investment at cost	Accumulated depletion, depreciation and amortization	Net Investment
Unproven lands	$ 46,527,000	$ 10,923,000	$ 35,604,000
Proven lands	39,591,000	23,939,000	15,652,000
Exploration work in progress	2,374,000	—	2,374,000
Oil and gas wells and facilities	70,941,000	31,912,000	39,029,000
Gas plants and facilities	18,566,000	8,592,000	9,974,000
Marketing sites and facilities	19,287,000	3,771,000	15,516,000
Refinery	10,793,000	3,982,000	6,811,000
Other facilities and equipment	3,324,000	1,584,000	1,740,000
Total — December 31, 1975	$211,403,000	$84,703,000	$126,700,000
Total — December 31, 1974	$204,865,000	$77,325,000	$127,540,000

Note 5 — Share Capital

At December 31, 1975, options to purchase no par value shares of the Company were outstanding as follows:

	Held by		
Date of Grant	Officers (one of whom is a director)	Employees	Option Price
September 17, 1970	6,930	6,540	$10.65
September 9, 1973	1,500	—	$13.95
March 8, 1974	16,800	6,875	$11.95
	25,230	13,415	

Option prices are 90% of the market price at the date of grant. In the case of the 1970 options, effect has been given to the three for one share split in November, 1972.

Note 6 — Anti-Inflation Act
With effect from October 14, 1975, the Company appears to be subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act.

The impact of this legislation on the Company's profit margins, prices and compensation arrangements is not presently subject to satisfactory determination because of uncertainties respecting the application to the operations of the Company of certain provisions and definitions contained in the Act and the Regulations. No provision has been made in the accounts to December 31, 1975, for the effects of the Anti-Inflation Act since those effects, if any, would not materially change the financial information reported herein.

Under the legislation it appears that the amount of dividends which the Company might declare during 1976 will be subject to restrictions. Clarification of the extent of those restrictions has been requested from the Anti-Inflation Board.

Note 7 — Comparative Figures
Certain 1974 figures provided for purposes of comparison have been restated to conform to the presentation used in the current year. These changes have no effect on the 1974 earnings.

Auditors' Report

To the Shareholders of
Union Oil Company of Canada Limited

We have examined the consolidated balance sheet of Union Oil Company of Canada Limited and its wholly owned subsidiary as at December 31, 1975, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Calgary, February 4, 1976

Chartered Accountants

Ten Year Statistical Review

Per share figures for years prior to 1972 have been restated for comparative purposes to give effect to the three for one share split in November of 1972.

FINANCIAL (in thousands of dollars, except where otherwise specified)	1975	1974	1973
Income from all sources	$ 91,727	$ 85,518	$ 65,259
Cash expenses	62,438	46,359	30,890
Cash flow from operations	29,289	39,159	34,369
Dollars per share	2.03	2.72	2.39
Non-cash expense	16,847	20,407	21,005
Provision for deferred income taxes	(1,921)	6,500	4,227
Earnings for the year	14,363	12,252	9,137
Dollars per share	1.00	0.85	0.63
Non-recurring profit on sale of assets	1,048	—	—
Dollars per share	0.07	—	—
Working capital	53,712	48,852	34,499
Property, plant and equipment, net	126,700	127,540	122,004
Investments and other assets	3,502	2,450	3,547
Total assets employed	183,914	178,842	160,050
Loan and other liabilities	—	—	—
Accumulated provision for deferred income taxes	28,365	30,065	23,565
Shareholders' equity	155,549	148,777	136,485
Dollars per share	$ 10.80	$ 10.33	$ 9.48
Number of shares issued and outstanding (Since 1972 no par value, prior years $1 par value)	14,399,190	14,399,190	14,395,440
Number of shareholders	992	983	915
Capital expenditures			
Development drilling	$ 4,498	$ 2,318	$ 4,177
Oil, gas and gas plant facilities	3,464	2,861	2,021
Exploratory drilling	2,531	9,524	13,348
Geophysical surveys	2,660	3,737	1,088
Acquisition of oil and gas properties and other rights and interests	2,604	5,984	1,342
Refining	184	385	57
Marketing	570	1,552	1,048
Other	15	290	85
Total	$ 16,526	$ 26,651	$ 23,166
OPERATING			
Average Gross Daily Production			
Crude Oil and Natural Gas Liquids (bbls.)	30,119	39,097	43,042
Natural Gas (mcf)	66,742	80,809	72,853
Sulphur (long tons)	270	308	308
Gross reserves			
Crude oil and natural gas liquids (thousands of bbls.)	137,031	128,157	147,739
Natural gas (mmcf)	622,833	626,586	640,795
Sulphur (long tons)	1,205,150	978,864	1,191,600
Petroleum land holdings (thousands of net acres)	6,423	8,430	6,221
Refinery throughput (bbls. per calendar day)	6,200	6,597	6,507
Number of employees	337	360	352

**First full year of operation.*

1972	1971	1970	1969	1968	1967	1966
$ 53,407	$ 47,790	$ 40,703	$ 37,143	$ 30,896	$ 25,265	$ 23,947
26,914	23,226	20,773	17,112	14,223	8,133	6,994
26,493	24,564	19,930	20,031	16,673	17,132	16,953
1.84	1.71	1.39	1.39	1.16	1.19	1.19
16,503	13,823	12,740	12,180	11,417	10,279	10,575
2,826	3,291	2,236	2,495	1,768	2,265	2,121
7,164	7,450	4,954	5,356	3,488	4,588	4,257
0.50	0.52	0.34	0.37	0.24	0.32	0.34
—	—	1,257	—	—	—	—
—	—	0.09	—	—	—	—
22,994	16,386	4,756	755	(2,592)	8,083	12,574
120,174	116,815	117,946	114,933	108,192	93,240	82,213
3,417	3,343	2,964	3,567	3,764	2,785	2,225
146,585	136,544	125,666	119,255	109,364	104,108	97,012
—	—	—	2,040	—	—	101
19,338	16,512	13,221	10,985	8,490	6,722	4,457
127,247	120,032	112,445	106,230	100,874	97,386	92,454
$ 8.85	$ 8.35	$ 7.83	$ 7.39	$ 7.02	$ 6.79	$ 6.36
14,385,940	4,793,710	4,789,430	4,789,300	4,789,300	4,789,300	4,768,050
858	917	1,041	1,037	1,212	1,310	1,451
$ 1,515	$ 2,089	$ 2,130	$ 2,968	$ 5,276	$ 3,465	$ 4,436
2,812	2,350	3,412	3,202	12,039	1,592	2,680
5,944	3,220	2,444	1,226	1,796	1,685	2,426
2,616	1,770	3,009	1,611	1,914	3,331	1,633
6,067	1,457	1,629	3,858	934	2,591	27,196
58	76	127	1,286	337	6,125	1,893
602	1,629	2,417	4,618	3,970	2,576	994
521	248	798	337	158	170	110
$ 20,135	$ 12,839	$ 15,966	$ 19,106	$ 26,424	$ 21,535	$ 41,368
41,877	40,629	39,556	35,829	32,735	32,042	31,384
65,698	54,263	50,525	48,876	41,829	29,700	27,536
347	317	289	247	—	—	—
163,833	175,786	185,051	184,080	181,550	179,400	158,898
633,472	600,076	555,889	548,433	534,569	477,407	474,440
1,338,000	1,428,119	1,488,736	1,581,325	1,533,935	1,489,442	791,135
5,288	5,519	5,681	6,628	7,397	6,169	5,377
6,270	5,955	5,143	5,720	4,061*	—	—
371	357	329	286	234	191	133

Directors

C. S. Brinegar
Senior Vice President
Union Oil Company of California
Los Angeles, California

R. A. Burke
Senior Vice President
Union Oil Company of California
Los Angeles, California

C. W. Dumett, Jr.
President
Union Oil Company of Canada Limited
Calgary, Alberta

W. E. Farrar
Manager of Public Affairs
Gulf Region
Union Oil Company of California
Houston, Texas

Fred L. Hartley
Chairman and President
Union Oil Company of California
Los Angeles, California

C. F. Parker
Senior Vice President
Union Oil Company of California
Los Angeles, California

J. M. Tory, Q.C.
Barrister & Solicitor
Tory, Tory, DesLauriers & Binnington
Toronto, Ontario

Officers

Fred L. Hartley
Chairman of the Board

C. W. Dumett, Jr.
President

J. C. Browning
Vice President, Refining & Marketing

E. J. Connor
Vice President, Production

J. L. Maclagan
Vice President, Finance, Treasurer

G. P. Salisbury
Vice President, Exploration

R. G. Byers
General Counsel, Secretary

D. B. Jarrett
Comptroller, Assistant Secretary

Head Office
335 Eighth Avenue S.W.,
Calgary, Alberta

Transfer Agent and Registrar
The Royal Trust Company,
Calgary, Montreal, Toronto,
Winnipeg, Vancouver

Subsidiary
Union Oil Holdings Limited

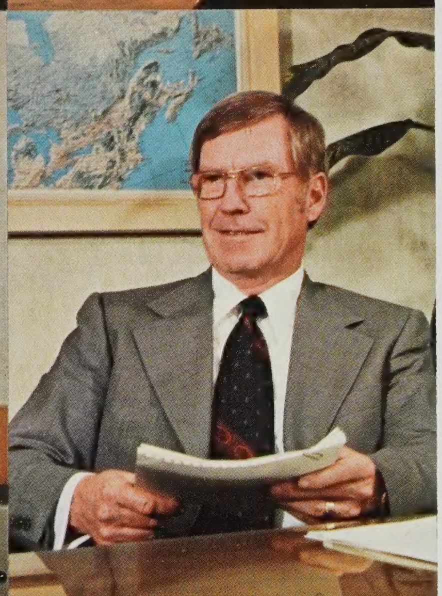
Stock Exchange Listings
The shares of the Company are listed on the Toronto, Montreal, Vancouver and Alberta Stock Exchanges

Auditors
Coopers & Lybrand

Incorporated under the Laws of Canada

LITHOGRAPHED IN CANADA





Head Office
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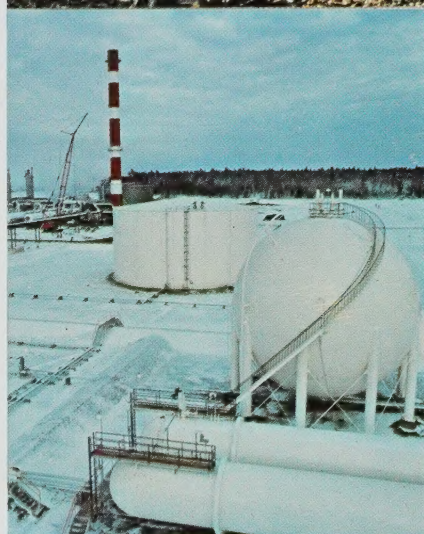

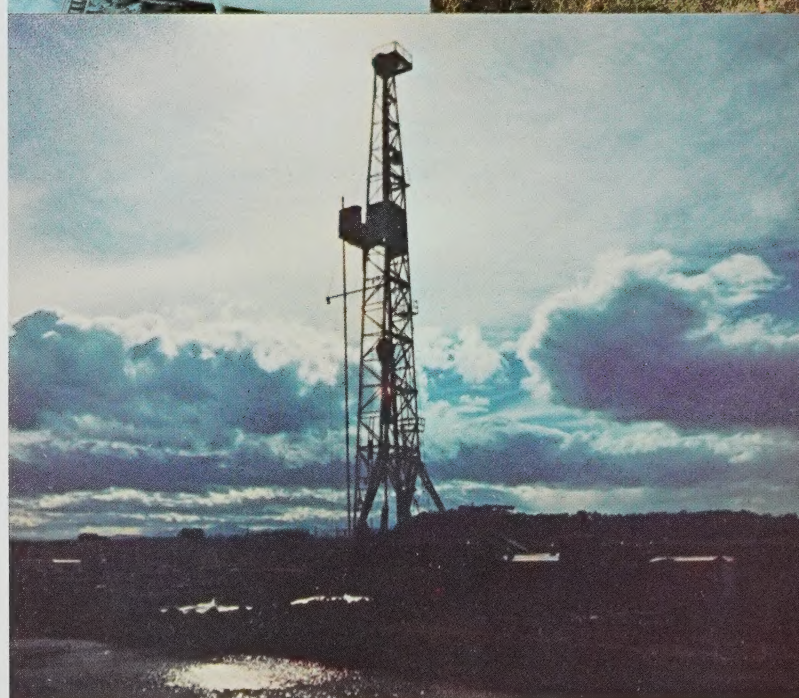

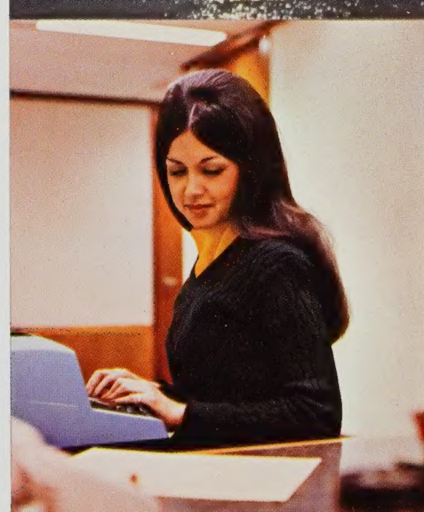

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union 76